

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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Business Failures Mount . . .

The economy is now exhibiting signals which suggest that a turning point may have been reached. In May, the index of leading economic indicators rose for the third month in a row, housing starts edged up over the one million unit mark, at a seasonally adjusted annual rate, for the first time in almost a year and the unemployment rate stabilized. What is more, new factory orders rose 1.5 per cent, month-over-month, with the largest gain posted by the consumer sector. But although these encouraging developments are welcome, they have arrived too late for the many companies which have already fallen victim to lofty interest rates, sharply rising production costs, eroding profits, low productivity and sluggish consumer demand.

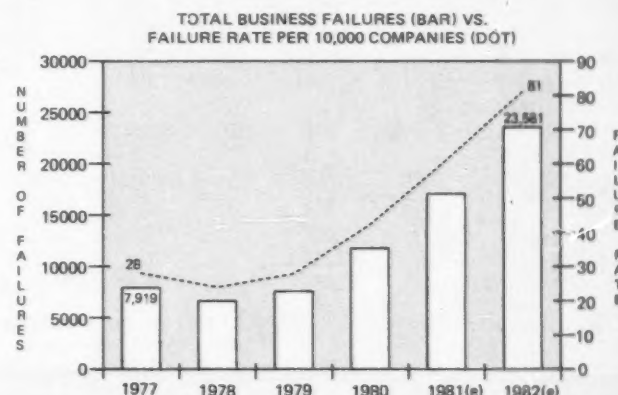
Since 1980, the number of bankruptcies has more than doubled while the failure rate has soared from 42 per 10,000 companies to an estimated 81 per 10,000 so far in 1982 (see chart opposite). In 1981, the number of failures stood 45 per cent higher than in 1980, and during the first six months of this year they soared another 44 per cent over the same period a year ago. What is more, the number of companies filing for bankruptcy during the two-week period ending on June 17 was the highest since the Great Depression.

. . . In The United States . . .

Many businesses incurred sizable losses despite cutting wages and benefits, laying off workers, paring inventories and eliminating unprofitable product lines. The manufacturing sector was hit the hardest. Casualties rose by an estimated 57 per cent during the first half of 1982, compared with the same period a year ago, following a 41 per cent jump in 1981. In other industries, such as transportation, these problems were compounded by changes in government regulation. The service sector, which includes trucking and airlines, posted an increase of 51 per cent in business failures

during the first five months of 1982, following a rise of the same size in the previous year.

Bankruptcies among wholesalers and retailers represent by far the largest proportion of total failures. So far this year, 37 per cent more retailers went out of business than during the comparable period a year ago. One important reason is that, in the face of sluggish consumer demand, they have been conducting frequent sales to entice shoppers into their stores, but by so doing have further squeezed already diminished cash flows. Bankruptcies among wholesalers shot up 56.5 per cent during the first five months of the year compared with the same period a year ago. Caught between



reduced orders from retailers and rising inventories, wholesalers have been traditionally the slowest to adjust to changes in economic activity, and thus hurt the most.

. . . Europe and Japan

The United States is not the only country experiencing an upsurge in business failures. Most of the other industrial countries have also seen a growing number of enterprises succumbing to the combination of high borrowing costs and sluggish demand. Although the bankrupt firms are of all



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sizes and in all sectors of the economy, the hardest hit have been small- and medium-sized companies with low capitalization and limited financial resources. What is more, such firms usually serve only national markets and are unable to compensate for declining sales at home by exporting. Thus, they are particularly sensitive to changes in the domestic business cycle. Even the larger firms, however, have suffered in the past two years from the slow growth of world trade and rising competition as each country seeks to expand its export markets.

In Germany, the number of business failures rose by 27.4 per cent in 1981 over the year before, after a 9.5 per cent increase in 1980. This year

another increase of close to 30 per cent has been estimated based upon data for the first three months of this year as well as the expectation of another year of low real growth for the German economy. In 1981, inflation-adjusted GNP actually declined by two-tenths of one per cent and this year it is expected to grow by less than one per cent in an environment of high interest rates and rising unemployment. Business failures have been particularly high in the construction and service sectors. Furthermore, insolvencies among small- and medium-sized firms ran 67 per cent higher in the first three months of this year than in the same period in 1981.

The number of bankruptcies in France has also

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/30/82	\$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	139.460	- 1.113	+ 9.329
Loans to Depository Inst.	1.616	+ .601	- .115
Float	1.808	- .254	- 1.477
Total Reserve Bank Credit	151.818	- .874	+ 5.794
Treasury Deposits with			
Federal Reserve Banks	3.140	- .590	- .073
Currency Outside Banks	130.215	- .930	+ 7.233
Member Bank Reserves:			
Required	39.799	+ .245	- 1.048
Excess (Deficiency)	.707	+ .459	+ .276
Total Reserves Held	40.506	+ .704	- .772
Net Borrowed Reserves	.641	+ .128	+ .199
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.122	+ 4.620	- 1.352
		% Change Since	
		Three Months Ago*	Year Ago
Monetary Aggregates †			
M1	445.9	+ 2.7‡	+ 5.2‡
M2 (June '82)	1,906.6	+ 8.9	+ 9.5
M3 (June '82)	2,294.2	+ 10.4	+ 10.2
L (February '82)	2,698.8	+ 10.6	+ 11.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 7/9/82			
* U.S. Treasury Bills	11.50%	12.00%	12.00%
* Federal Agencies	12.70	13.25	14.05
* Project Notes—Taxfree (46% Taxable Equivalent)	13.43	13.89	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.00	14.15	14.50
* Finance Company Paper—Prime			
5- 14 days	13.50%	Aug.	13.45%
15- 29 days	13.00	Sep.	13.45
30- 59 days	13.00	Oct.	13.45
60- 89 days	13.00	Nov.	13.40
90-179 days	13.13	Dec.	13.30
180-239 days	12.88	Jan.	13.20
240-270 days	12.88		
* Industrial Paper—Prime			
30- 89 days	13.50%	† Federal Funds	
90-120 days	13.55	Effective Rate	13.00%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

Gross National Product (Current Dollars)*
Gross National Product (1972 Dollars)*
Percent Change, Annual Rate
Change in Consumer Prices (all urban consumers)*
Change in Producer Prices*
Civilian Employment (Thousand; of Persons) †
Unemployment as % of Civilian Labor Force †
Personal Income*
Leading Indicators Composite Index (1967=100) †

Industrial Production Index (1967=100) †
Net Change in Consumer Installment Credit †
U.S. Merchandise Trade Balance †
Plant and Equipment Expenditures*
Private Housing Starts (Thousands of Units)*
New Construction Expenditures*
Total Business Inventories †
Total Business Sales †

* Seasonally adjusted annual rate.

† Seasonally adjusted.

	Latest Period or End of Period	Previous Period	Year Ago Period
1st Q'82	\$ 2,998	\$ 2,998	\$ 2,853
1st Q'82	\$ 1,485	\$ 1,498	\$ 1,516
1st Q'82	- 3.7	- 4.5	8.6
May '82	12.0%	2.4%	9.6%
May '82	0.0%	1.2%	2.4%
Jun '82	99,764	100,117	100,430
Jun '82	9.5%	9.5%	7.4%
May '82	\$ 2,548	\$ 2,532	\$ 2,367
May '82	127.7	127.3	136.0
May '82	140.3	140.6	152.7
May '82n	\$ 1.40	\$ 1.18	\$ 1.57
May '82	-\$ 3.29	-\$ 0.32	-\$ 3.35
3rd Q'82	\$328.04(a)	\$336.77(a)	\$328.25
May '82	1,086	888	1,172
May '82	\$ 229.2	\$ 226.2	\$ 240.9
Apr '82	\$ 508.5	\$ 507.6	\$ 487.1
Apr '82	\$ 339.9	\$ 343.1	\$ 350.9

n—Newly reported figure.

a—Anticipated.

soared. There were 20.3 per cent more failures in 1981 than in 1980 as real growth in the French economy fell to less than one per cent. In the first five months of this year, French business failures have continued at about the same rate as last year. In addition to the cyclical economic problems afflicting all of the developed economies, the French economy is also undergoing a number of structural changes brought about by the sharp redirection in economic policy introduced by the present government after the elections in May, 1981.

In the United Kingdom, even though the pace at which business bankruptcies are occurring has slowed, a record number of British businesses

failed in 1981. After a huge 37.6 per cent increase in the number of business failures in 1980 over 1979, in 1981 business failures rose by a further 26.4 per cent. This trend can be attributed to the restrictive policies of the present British government, which were first implemented in 1979 and are still working their way through the economy. In 1980, real GNP in the United Kingdom fell by 1.7 per cent and in 1981 by nine-tenths of one per cent.

The number of business failures actually declined in Japan last year, with 5.7 per cent fewer failures than in 1980, when tight monetary policies were in effect in order to limit the inflation rate impact of the hike in oil prices. Recently, however,

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's			
Weekly Reporting Banks			
Nationwide (6/23/82)	135,453	- 363	+ 15,600
New York City (6/23/82)	33,127	- 638	+ 4,296
Commercial Paper (6/23/82)	180,378	+ 3,406	+ 34,157

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
	Latest Week	Change Since	
		Week Ago	Year Ago
Weekly Reporting			
Large Commercial Banks			
Nationwide (6/23/82)	208,505	- 984	+ 29,268
New York City (6/23/82)	58,861	- 784	+ 6,867
Total Loans Gross Adjusted			
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (6/23/82)	484,712	- 1,277	+ 44,493
New York City (6/23/82)	112,897	- 1,323	+ 8,645

Financial Markets

	Friday 7/9/82	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Billst	11.75%	- 1.35	- 3.86
180-Day Billst	12.60	- 1.32	- 2.70
Longest Billst	13.00	- 1.17	- 1.85
Recent Issues:			
143/8s 6/30/84	13.40	- 1.12	
147/8s 6/30/86	13.80	- .85	
133/4s 5/15/92	13.72	- .63	
14s 11/15/11	13.36	- .56	
Municipals:			
Bond Buyer-20 Bond Index* (7/8/82)	12.47%	- .11	+ 1.50
Blue List Total (\$ Million)	\$ 824	- \$ 52	- \$147
30-Day Visible Supply (\$ Million)	\$1,710	- \$532	- \$296
Total	\$2,534	- \$584	- \$443
Corporates:			
Moodys's Aa Composite (7/8/82)	15.44%	- .01	+ .76
30-Day Visible Supply (\$ Million) ‡	\$1,425	+ \$ 50	NA
Stocks:			
Dow-Jones Averages:			
Industrials	814.12	+ 17.13	- 141.55
Transportation	320.59	+ 5.99	- 83.17
Utilities	106.82	+ .65	- .82
85 Stocks	316.70	+ 5.73	- 53.74
Standard and Poor's 500 Stocks	108.83	+ 1.18	- 20.55
N.Y.S.E. Composite Index	62.54	+ .55	- 12.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	52,916	+ 3,976	+ 6,922

International Rates

	Friday 7/9/82	Week Ago
EURODOLLAR		
DEPOSIT RATES (bid)		
Overnight	13.00%	15.00%
1 month	14.88	15.50
3 month	15.31	15.88
6 month	15.56	16.13
1 year	15.56	15.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.90%
Long Term (7 to 15 yrs.)	14.85	15.00
FOREIGN EXCHANGE SPOT RATES		
New York Opening	U.S. \$	Currency
(7/9/82)	Equivalent	Per U.S. \$
Belgium	.02113	47.33
Canada	.7831	1.2770
Denmark	.1162	8.6050
France	.1447	6.9100
Germany	.4024	2.4850
Italy	.0007168	1395.10
Japan	.003926	254.70
Mexico	.02069	48.33
Netherlands	.3644	2.7440
Switzerland	.4728	2.1150
U.K.	1.7275	.5789

* 48% Taxable equivalent 23.00%.

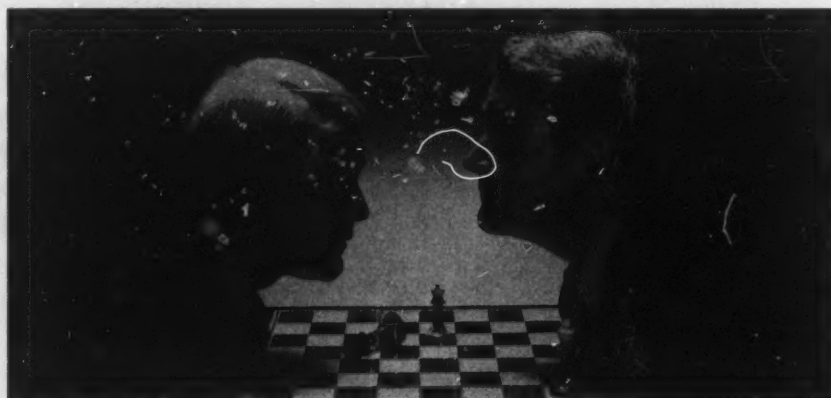
‡ Series redefined: Historical data not available.

† Bond equivalent.

business insolvencies have begun to rise again, influenced by slack domestic demand and a weakening of the export market which many small- and medium-sized Japanese firms serve either directly or as subcontractors.

The swelling tide of bankruptcies, along with skyrocketing unemployment (Financial Digest—

May 24, 1982), is further evidence of the depth and persistence of the current global economic slowdown. And while business failures mean not only personal financial losses to proprietors and stockholders, as well as jobs, they also represent a reduction in a nation's stock of business investment and productive capacity—losses which take longer, and are more difficult, to make up. ■



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